

Message Text

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ACTION ARA-10

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TO SECSTATE WASHDC 8126

INFO AMCONSUL RIO DE JANEIRO

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E.O. 11652: N/A

TAGS: EFIN, BR

SUBJECT: INFLATION ABATES AND MONETARY AUTHORITIES EASE
CREDIT CONDITIONS

1. SUMMARY: FINANCE MINISTER SIMONSEN SEES FEBRUARY INFLATION RATE OF 1.9 PERCENT AS AN INDICATION THAT INFLATIONARY PRESSURES ARE ABATING. MONETARY AUTHORITIES TAKE MEASURES TO EASE CREDIT CONDITIONS IN FACE OF REPORTED FROP OF 8.4 PERCENT IN MONEY SUPPLY THROUGH FEBRUARY 18. END SUMMARY.

2. FINANCE MINISTER SIMONSEN ANNOUNCED ON MARCH 10 THAT, BASED ON FEBRUARY DATA, IT APPEARS THAT INFLATIONARY PRESSURES IN BRAZIL ARE DIMINISHING AND THAT IN FUTURE MONTHS, HE EXPECTS THE MONTHLY RATE OF INFLATION TO BE BELOW LAST YEAR'S. THE GUANABARA COST-OF-LIVING INDEX, ACCORDING TO SIMONSEN, SHOWED AN INCREASE OF 1.9 PERCENT IN FEBRUARY, DOWN FROM THE 2.9 PERCENT LEVEL OF JANUARY. THE CUMULATIVE INCREASE FOR THE FIRST TWO MONTHS OF THIS YEAR WAS REPORTED AT 4.8 PERCENT, AS COMPARED WITH 6.4 PERCENT SAME TIME
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LAST YEAR.

3. WHILE INFLATIONARY PRESSURES WERE ABATING, THE CENTRAL BANK WAS TAKING MEASURES TO EASE UP THE VERY TIGHT CREDIT SITUATION WHICH EXISTED DURING THE FIRST TWO MONTHS OF THE YEAR. THE MONEY SUPPLY (M1) REPORTEDLY DROPPED BY 8.4 PERCENT THROUGH FEBRUARY 18, A CONTRACTION SUBSTANTIALLY GREATER THAN THE SEASONAL DECLINE ENVISIONED IN THE MONETARY BUDGET. DURING THE PAST SEVERAL DAYS, MONETARY AUTHORITIES HAVE TAKEN THE FOLLOWING EXPANSIONARY STEPS: (A) FREED 4 PERCENT OF THE BANKING SYSTEM COMPULSORY DEPOSITS FOR LOANS TO SMALL AND MEDIUM-SIZED FIRMS; (B) INJECTED CR\$1 BILLION 700 MILLION (ABOUT \$225 MILLION) INTO THE MINISTRY OF TRANSPORT FOR HIGHWAY AND RAILROAD CONSTRUCTION; (C) OPENED A CR\$3 BILLION LINE OF CREDIT (ABOUT \$400 MILLION) IN THE CAIXA ECONOMICA FEDERAL (NATIONAL SAVINGS BANK), 50 PERCENT OF WHICH IS TO BE USED BY INVESTMENTS BANKS FOR EXPORT FINANCING AND 50 PERCENT BY BANCO DO BRASIL (CACEX) TO REFINANCE EXPORT CREDITS AND (D) THE CENTRAL BANK HAS MADE TOTAL DEPOSITS OF CR\$3 BILLION WITH COMMERCIAL BANKS TO PROVIDE IMMEDIATE RELIEF. THIS IS THE FIRST TIME THAT THE CENTRAL BANK HAS USED THESE SO-CALLED COMPENSATORY DEPOSITS TO INJECT LIQUIDITY INTO THE ECONOMY.

4. COMMENT: THE MONETARY AUTHORITIES HAD BEEN UNDER CONSIDERABLE PRESSURE (AS EVIDENCED BY, AMONG OTHER INDICATORS, THE NUMBER OF NEWSPAPER ARTICLES AND EDITORIALS) DURING THE PAST MONTH TO EASE UP ON WHAT HAD BECOME A VERY TIGHT CREDIT SITUATION. SINCE FOR SEASONAL FACTORS THE CENTRAL BANK USUALLY FOLLOWS A RESTRICTIVE POLICY DURING JANUARY AND MOST OF FEBRUARY, THESE PROCEDURES WERE RESISTED UNTIL MONETARY OFFICIALS REALIZED THAT THEY HAD PROBABLY STEPPED ON THE BRAKES MORE THAN IT WAS CONSIDERED DESIRABLE. A NUMBER OF FIRMS HAD REPORTEDLY REACHED THE CHOKING POINT. THE LOWER INFLATION RATE IN FEBRUARY NO DOUBT HELPED SPUR THE MONEY MANAGERS INTO ACTION.
CRIMMINS

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